



Symbotic Inc

Q2 FY 2024 Financials Call

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PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to Symbotic Second Quarter 2024 Financial Results Conference Call. (Operator Instructions)

Please be advised that, today's conference is being recorded. I would now like to turn the call over to your speaker for today, Jeff Evanson, Vice President of Investor Relations.

Please go ahead.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*

Thank you, Lisa.

As a reminder, some of the statements that we make today regarding our business operations and financial performance may be considered forward-looking.

Such statements are based on current expectations and assumptions that are subject to a number of risks and uncertainties. Actual results could differ materially.

Please refer to our Forms 10-K and 10-Q including the risk factors.

We undertake no obligation to update any forward-looking statements.

In addition, during this call we will present both GAAP and non-GAAP financial measures.

A reconciliation of non-GAAP to GAAP measures is included in today's earnings release, which is distributed and available to the public through our Investor Relations website located at ir.symbotic.com.

On today's call we're joined by: Rick Cohen, Symbotic's Founder, Chairman and Chief Executive Officer; and Carol Hibbard, Symbotic's Chief Financial Officer. These executives will discuss our second quarter fiscal '24 results, and our outlook, followed by Q&A. Rick?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Thank you, Jeff. Good afternoon. And thank you for joining us to review our most recent results.

Our second quarter reflects solid financial progress.

At the same time, we accelerated the pace of innovation significantly during the quarter.

We will discuss some of our recent innovations at our Investor Day on May 9.

You can sign up for the webcast on the IR page of our website.

Key innovations this quarter, include advancing our core technologies and artificial intelligence and automation, improving system performance and the customer experience, enhancing safety and accelerating deployment.

I'd like to quickly highlight some important software improvements made this quarter.

First, we improved our time space reservation routing algorithms. This allowed us to more than double transfer that capacity and boost bot density, which helps to increase throughput and system capacity.

Second, we transitioned our code base to a microservices architecture for increased modularization. This enables more efficient coding, evolution and support.

Finally, on the hardware side, with the addition of a new AI chip, we have increased the computational power of SymBot. This higher compute power is key to unlocking more of the value of artificial intelligence across the entire Symbotic system.

This quarter, we also wrapped up the restructuring and outsourcing of our manufacturing operations and standardized on the SymBot for all future deployments.

This summer, we will begin the installation of our second BreakPack solution with an undisclosed customer.



We're excited about the potential of this application as we continue to evolve the technology, knowing it has the capability to become an important part of an integrated omni-channel warehouse solution that services wholesale, retail and e-commerce channels with both case and each handling capacity.

GreenBox recently signed their first logistics as a service customer and issued related order for a Symbotic system all within this quarter, so Symbotic will begin recognizing initial GreenBox revenue in fiscal Q3. GreenBox will automate and operate a Brownfield warehouse for C&S Wholesale Grocers.

Partnering with GreenBox allows C&S to accelerate its transition to an autonomous supply chain in a capital-efficient way.

I'm excited that the C&S team saw the benefits of outsourcing with GreenBox.

GreenBox team is currently evaluating locations across the U.S. for these sites.

Finally, while SoftBank team members have been performing much of the operational work in GreenBox, the initial hiring for a GreenBox management team has started.

We expect to be able to announce our first hires in the next several months.

To wrap up, we will continue to innovate, execute and scale to deliver for our customers as we grow and drive increased profitability.

I want to thank our entire team for their excellent work this quarter.

Now Carol will discuss our financial results and outlook. Carol?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

Thank you, Rick.

Second quarter revenue grew to \$424 million, up 59% compared to the same quarter last year. The strong revenue growth was driven by significant progress across our 37 systems in the process of deployments.

During the second quarter, we initiated three new system deployments and completed three systems, bringing us up to 18 fully operational systems.

As indicated on our last call, system starts stabilized in the second quarter, as the team focused on implementing the innovations that Rick just mentioned and enhanced system standardization for phase deployments.

We expect quarterly system starts to accelerate during the rest of the year.

For this quarter, our revenue numbers reflect that significant revenue growth can be driven by our ability to accelerate deployments in progress.

And just as important, reductions in system deployment time create capacity to support future customer demand.



Our backlog of committed contracted orders of \$22.8 billion declined due to the revenue recognized during the quarter.

Our combined recurring revenue streams grew 85% sequentially and 145% year-on-year, reflecting the increase in the number of completed systems.

Overall, non-GAAP gross margin was down slightly from last quarter, but still better than expected. The innovations we deployed during the second quarter weighed upon system gross margin, but were largely offset by effective cost management and solid project execution.

System adjusted gross margin remained stable at 20% and generally in line with last quarter.

As usual, our system gross margin also reflects burden of pass-through costs and lower-margin innovation projects that weigh on a reported gross margin.

Our combined recurring revenue streams contributed to positive adjusted gross profit.

This demonstrates the high leverage in our business model, showing that we can be profitable with a small number of active sites generating recurring revenue, while also being invested for the much larger number of systems still in deployment.

As I said last quarter, we do not expect gross margin to improve every quarter, but we do expect gross margin to improve each year well into our future.

We expect that as we scale over time, combined recurring gross margins can trend to over 60%.

Operating leverage improved again sequentially as we achieved a 5.3% adjusted EBITDA rate, compared to a 3.8% rate last quarter. This was driven by rapid revenue growth and gross margin expansion, along with stable operating expense.

As Rick indicated, we completed restructuring related to outsourcing bot assembly and component inventory management including standardizing SymBot as our go-forward platform.

As a result, we recognized the non-GAAP restructuring charge of \$34 million in the quarter.

Our cash and equivalents including marketable securities grew \$276 million sequentially to \$951 million.

Free cash flow, defined as cash flow from operating activities of \$21 million, less capital expenditures of \$3 million was \$18 million and better than expected during the quarter.

In addition, we raised \$258 million from our February follow-on offering, which gives us the flexibility to maintain our aggressive pace of innovation in a variety of areas including non-ambient systems development.

As expected, stock-based compensation was elevated due to the January vesting that occurs each year.

In fact, Q2 will usually be the quarter with the highest stock-based comp every year.



For the third quarter of fiscal 2024, we expect revenue of \$450 million to \$470 million and adjusted EBITDA between \$27 million and \$29 million. This represents revenue growth of over 47% and an adjusted EBITDA margin increase.

We now welcome your questions.

Operator, please begin the Q&A.

Operator

(Operator Instructions) The first question that we have is coming from Andy Kaplowitz of Citi.

Andrew Kaplowitz – Citi; Analyst

Rick, I know you said in the release that you made significant advances in terms of our innovation roadmap.

So, could you give a little more color into what that means? I know you mentioned on the call, already better software, the new AI chip.

I'm sure you want to say much of this for the Investor Day, but did you, for instance, further accelerate deployment time? It seems like BreakPack revenue could come faster than expected.

Maybe you can elaborate a little bit more on what you did in the quarter.

Rick Cohen Symbotic Inc. – Chairman of the Board and Chief Executive Officer

Sure, Andy.

So the -- we've been working on this for about three years now.

But putting vision on our bots and that combined with NVIDIA chips that we're using allows us to recognize boxes that may be deformed, but still recognize what the product is. And so, that makes our bots much more able to pick irregular cases. And as you know we're one of the only people, maybe the only one that puts our box directly on shelves.

We don't put them on trays. That requires a lot of expertise and a lot of knowledge. And so, we've been on this journey for a while.

And now about 40% of our bots in our network are vision-enabled. And so, there's a bunch of work for the AI to catch up with recognizing 1,000 different pictures of a single box and saying, oh, that's XY's product. And the shape, I didn't recognize it before because we were just using sensors.

But now with vision, we can actually recognize that. So that's one thing.

The other thing we did is that we changed the routing algorithms for our bots. And they will also be vision-enabled so that they're more reliable, so that if something happens like a bot gets stuck on a broken case or something that we can now route around it. And we always could do that a little bit, but now we can do it much better. And then to be able to actually see the bot in front of us is also innovative.



The other thing we've done is we have started work on a perishable testing. And so, we think that's going to go fairly well because there's not a lot of new things we have to do on perishables, but we want to test what happens when a bot runs over yogurt.

So things like that. And then, the next thing after that will be testing bots in a frozen environment.

So those are a couple of things we've been doing.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

And then, Andy -- I was going to say, I'll tackle the accelerated deployment time.

So last quarter, we highlighted that we had achieved our first deployment in 20 months. So this quarter, out of the three systems that we deployed, we had several that also achieved a 20-month deployment time. So, we're -- we've definitely got some additional proof points.

And as a reminder, some of the things that are enabling that faster deployment, we're seeing the benefit of continuous learning over multiple deployments from our supply chain, as well as our own folks.

We've got increased collaboration across ourselves and our customer. And then, we talked quite a bit last quarter about the quality and the standardization to build on build instructions and our test procedures. We're seeing the benefit of all of that.

So going forward, we do have some straggler deployments, I'll call them, that we'll complete in the second half of this year that might take a little bit longer than that 20 months, because each deployment is not the same size or complexity, but we're still on target for the future to have a number of opportunities that we see driving deployment time less than 12 months.

Andrew Kaplowitz – Citi; Analyst

And then another pretty big update on the GreenBox side. So maybe you can talk about that. I mean you've been expecting your first customer, I think, this year, but starting in Q3. So, do you see an acceleration there from here? Do you get -- you focus on this customer like, how does that work moving forward?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So, we'll have our first deployment. C&S is going to use GreenBox to build a facility for them. I think when people will then reach out to us, they'll reach out to GreenBox or reach out to C&S and say, why did you make that decision? And it's everything that we've been saying.

It's capital efficient. It allows people to get into automation quicker. And it allows -- C&S believes we'll have higher customer satisfaction using GreenBox than using a conventional warehouse system.

And then the other thing we are looking at sites across the country right now to put up additional sites. So, we're feeling very bullish that if we build it, they'll come, and SoftBank's aligned with that. So, we're excited about that.

Operator

And our next question will be coming from Matt Summerville of D.A. Davidson.



Matt Summerville – D.A. Davidson; Analyst

I wanted to ask maybe a follow-up on GreenBox and C&S. Is this a single location that's going to support C&S? And if so, how much of C&S is that actually supporting? I guess, I'm trying to get an idea for is C&S planning on standardizing their warehouse, if you will, on GreenBox? Or is this more of, I guess, more of a proof point that this is -- that they want to see if this is the way they kind of want to proceed?

I'm trying to understand their bigger picture thinking on strategy here and where this could evolve for you guys?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

So Matt, I'll start.

So, C&S chose GreenBox as it was looking for ways to acceleration -- accelerate its automation rollout. This is the first proof point, I'll say, for C&S. And as we continue to vet multiple customers, multiple inbound related to GreenBox, we can see potential for additional customers and potentially additional opportunities across C&S.

Matt Summerville – D.A. Davidson; Analyst

Okay. And then with respect to the perishable side of things, what are maybe the 2, 3, or however many it makes sense to talk about, what are the key milestones we should be looking for that we should be waiting to hear about where this perishable soon in terms of when that gets green-lighted, that you actually start selling and rolling some of these out?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. I think it's probably a year out is my guess, and I think those milestones are going to be pretty easy to achieve, but the value of our system for our customers is incredible reliability. So, we're actually testing bots running in a structure in a perishable facility now.

It's just a test site, but have a customer that's interested in doing that, and so we're running -- and basically, what you do is you create disaster scenarios, you look for edge scenarios, and you make sure that a 32-degree temperature.

We're not really talking about frozen yet, but between 32 and 55, a lot of humidity, our bots will work fine. And we expect them to, but we're doing the testing.

So, I think sometime within the next year, we probably will announce that we have a perishable site somewhere. And I have to be -- I can't be too forward-looking, but I would say, but that's actually always been in our project, because it's not in the team we've talked about.

I mean the whole perishable world is a big world, and we think there's very special applications for Symbotic, because an ambient building is \$100, \$125 a foot, and perishable is probably \$250, and frozen might be \$350.

So the fact that we can store product as densely as we can, we think there's a different algebra for why people will use perishable, but we want to make sure before we sell a system that we've tested all the edge cases.

So long answer, the short answer to your question is, about a year from now you should look for something from us.



Operator

And our next question will be coming from Mark Delaney of Goldman Sachs.

Mark Delaney – Goldman Sachs; Analyst

First one was trying to better understand the revenue per system and installation. It went up a fair amount relative to last quarter. And Carol, you mentioned the progress you've made as a company in accelerating some of the installation times. I'm hoping to better understand how we should think about that ratio going forward? And is there opportunities to sustain or even build off of this level of revenue compared to the number of systems you have, given all the initiatives you have underway?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

Yes. So, I think the number one thing driving what you're seeing on that ratio is where we're at in terms of that deployment lifecycle.

So, if you think about -- we've talked about our revenue curve being the most revenue coming from those systems that are in the middle of install. And so, we'll have a varying degree of that every single quarter. And so, it's hard to predict the specific ratio, because the other thing that's driving that is each system is not the same size or the same complexity. And so, you'll continue to see that vary.

But as we move forward, our revenue curve will continue to grow, continue to see growth in that revenue, and that will -- so that ratio in terms of what it contributes from a system will continue to have more than those 37 in deployment at any given time.

Mark Delaney – Goldman Sachs; Analyst

It ties into my next question. Would it better understand what completing the restructuring in your shift to an outsourced model may mean not only in terms of some of the financial implications, like profit margins, but could you also talk about what it might mean for your capacity in terms of how many systems the company could have in place relative to the number of systems it could be working on at any one-time relative to the 37 that you currently have in installation?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

Yes. So, this quarter, we focused on completing the outsourcing that we began last year, and it was focused on the complete restructure and focusing to move to our SymBot platform. And so, I don't necessarily see the connection of how that necessarily drives to the scaling other than we now have a standardized SymBot.

We're going to be able to continue to deploy innovations along that SymBot, but what we did in terms of restructure really shut down any additional inventory costs associated with all our obsolete bots.

Operator

Our next question is coming from Nicole DeBlase of Deutsche Bank.

Nicole DeBlase – Deutsche Bank; Analyst

I wanted to ask a couple on the financials. So, the first is the system's gross margin fell to low double digits. I think you guys talked about in the opening remarks how that was driven by all of this innovation that you're working on. I guess, how quickly can that gross margin step up to a high teens or better level? Is that something you expect in the second half? Or will these innovation headwinds continue?



Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

We did better than expected on gross margin. But as you indicated, we were stable quarter-over-quarter. And so a couple of items that weigh on our gross margin. I'll talk about the things that are weighing on those gross margins now and then what we see for the future.

So, a couple of the things are the innovations that we have in work. We talked last quarter about focusing on additional resources to ensure quality deployments for some of those sizable projects we have in flow. We have the benefit on many of our contracts that we have pass-through costs, so why we're able to pass that through with a profit that remains stable that it weighs on our gross margin.

And then lastly, what's weighing on our gross margin is we have several lower margin projects in flow. And I would expect to see those start completing in the second half of this year. And so, our 3Q guide reflects stable gross margins.

So, as I said, we've got several significant milestones coming up in the second half of the year on some of these big projects. And gross margin won't improve every quarter, but we expect improvement in the coming years and that that will step up year-over-year.

And as I mentioned earlier, just in terms of the unlock for gross margin, the single biggest one being the time it takes to deploy our system. And we continue to see steps in the right direction with each one that we're rolling out.

Nicole DeBlase – Deutsche Bank; Analyst

And then I guess on the Operations Services business, we saw a really big step change, like revenue almost doubled sequentially there this quarter. I guess what drove that? And is this new level of revenue in Operations Services sustainable?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

So when you look at the step-up, the single biggest driver is we now have 18 systems that went operational.

We were at 15 last quarter. And when you compare that to just a year ago, we were at 9. So, a significant step up.

You're going to continue to see that grow. And I'll separate software and I'll separate the operations, because I think you started with the operations piece of it.

We expect operations revenue to continue to grow as we bring systems online. You will likely not see the same level that you saw this quarter.

We had several one-time events in the quarter that were -- that contributed not only to revenue, but to our gross profit in the operations area.

So, a few of those you will not see repeat, but you should expect that revenue to continue to grow.

Operator

Our next question will be coming from Ken Newman of KeyBanc Capital Markets.



Kenneth Newman – KeyBanc Capital Markets; Analyst

Sure. So, first question here. I'm just curious, you've -- obviously you're talking about accelerating deployments or initiations here into the back half. Is there any way to kind of size how you think about acceleration to the back half? You did three this past quarter. Is it fair to assume that you kind of return to that, call it four or five types of projects in the back half and accelerate into 2025?

Carol Hibbard *Symbotic Inc.* – Chief Financial Officer

Yes. So, we don't guide on system starts, but I'll start with where we were this quarter at 3. So, we indicated last quarter that we would see stabilization of our system starts that allowed the team to focus on all the innovations that Rick talked about and really implement system standardization for those phased deployments. So that's what you saw this quarter.

And it is a team effort to make a decision to go ahead and implement a new project or a new SOA. So that's a complex decision between ourselves, our suppliers, and our customers.

So, our customers also need to manage their operations through all of our installation activities including decommissioning legacy systems, preparing the site. So, it's a combined effort when we decide to go initiate.

But given our contracted backlog at \$23 billion, you're going to see the system starts step up in the second half of the year.

Kenneth Newman – KeyBanc Capital Markets; Analyst

I appreciate that. And then for my second question, I think you had positive free cash flow of just over \$18 million this quarter. Is there anything that would prevent you from being free cash flow positive for the full year as it relates to some of the innovation spending that you guys are expecting for the rest of this year? Or any of the other restructuring actions you might be considering?

Carol Hibbard *Symbotic Inc.* – Chief Financial Officer

As we look to the end of the year, we're expecting -- we don't guide on cash either, but you should expect to see positive working capital as we head to the back half of the year. Each quarter, there could be some lumpiness, I'll say in that, because depending on what maturity level of the systems we have in deployment, just as I described the revenue curve, the cash curve also mirrors that. And so, we could have some quarters where we are really heavy in terms of the final installation that might be a driver on cash.

As a reminder, we're very front-loaded in terms of when we sign projects.

So you could still see some lumpiness, but we are on a trajectory for positive working capital going forward.

Operator

Our next question is coming from Greg Palm of Craig-Hallum.

Greg Palm – Craig-Hallum; Analyst

I'm curious, we've been talking about driving timelines down for some period, and you've been really successful at doing that. And I'm just curious, how much of that is in your hands versus at the maybe expense of some of your outsourcing partners? And do you think that you're reducing the timelines at the expense of margins, meaning that as you continue to get better that you might



not need, I don't know how many folks that are paid overtime or any of the other related costs to ensuring that you have happy customers and get a system at a shorter amount of time.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

I'll start with the first part in terms of how much is in our hands and versus all of our partners. It is a joint effort. So, we're there helping to ensure the management of the project, Symbotic is also responsible for the planning upfront.

So, you've got to start the system right and make sure you've got all the planning in place so that material shows up. And then all of our partners need to deliver to the schedules that we lay out.

It's a combined effort across ourselves and then our customers certainly have a play in that, too, just ensuring the readiness. A fair point in terms of the timelines we've achieved.

So, we have talked about wanting to make sure we're putting the resources on a certain project, so that we can deploy on time and make sure we are deploying a very high-quality project.

I'd say, as you see us moving towards our -- going through our learning curve, and we continue to learn at every single site installation as do our suppliers. You're going to see that we'll continue to improve that timeline without needing the additional resources to ensure schedule.

Greg Palm – Craig-Hallum; Analyst

Yes. Okay. That makes sense. And as we think about sizing up that non-ambient opportunity, I know you've talked about that TAM or that SAM in the past. But just given your thoughts around maybe having some orders or some facilities, can you at least size up what type of share expansion is possible?

Like could you theoretically double the size of the opportunity with some of your current customers? I mean is it more? Is it significantly less? I'm not expecting an exact answer, but I would just be curious to know what that sort of wallet share expansion opportunity is, again, with your current customers, not necessarily with customers that you haven't won to date with something else?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

So, I'll start, and then Rick can share his thoughts.

We have not put a number out there in terms of sizing the TAM from our existing customer base.

But we've also indicated that our current backlog does not include that particular opportunity. And we know that each of our customers has the opportunity to go ahead and expand to non-ambient. And so, we consider that a significant opportunity for Symbotic going forward.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. I guess, I think the TAM is very large. I probably shouldn't be more specific than that right now. There are more ambient facilities than there are refrigerated facilities. So that's one thing.

But the economics of refrigerated are such that if you have a 200,000-square-foot perishable building and you want to expand it and maybe you can't expand it enough and you have to build a whole new building.



Our system is a very good solution for that. So, if we have a \$23 billion backlog on ambient, I would say, perishables probably not as big as our existing backlog, but it's very large.

Greg Palm – Craig-Hallum; Analyst

And if I could just sneak in one more clarification. Carol, I think you said expect growth in operation services revenue going forward. Was that sequentially off of the \$20 million in revenue that you just put up in Q2?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

No, because there are some one-time events that I referred to.

So there's a percentage of this quarter's revenue that we put up for operations that won't be repeatable.

Greg Palm – Craig-Hallum; Analyst

Got it. So, growth on a year-over-year basis, not sequentially?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

That's right. That's right.

Operator

Our next question will be coming from Mike Latimore of North Capital Markets.

Mike Latimore – North Capital Markets; Analyst

Congrats on the results and outlook here.

On BreakPack, can you talk a little bit more about the prospects there? What are you -- what interest levels are you seeing from current customers? Is it opening more new logo discussions? And maybe just clarify, is it in kind of the Walmart backlog or not at this point?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

So I'll start. BreakPack is considered part of the Walmart backlog.

So, Walmart considers BreakPack is one of the elements that they'll continue to go deploy. I'd say from a BreakPack perspective, this -- we indicated in our opening remarks that this will be our second BreakPack.

So, we also indicated we are offering BreakPack for sale -- we think there is a large market for BreakPack for all of our customers. And I think we've talked about before, BreakPack is also a part of GreenBox. It could be part of all of the GreenBox customers that are coming in.

Outside of that, I'm sure there is additional market for BreakPack customers beyond who's in our current customer base.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So, the BreakPack in the Walmart application is for anything that goes into the store, that's not a full case. But if you think of Walmart as every Walmart supercenter has a pharmacy and a drugstore, is a perfect application for any of the big drug store companies. It's also could be interesting for dollar stores.



So, we think this is a very big market that we really haven't talked much about because our BreakPack solution is very different than anything on the market.

And it takes -- the reason it's different is because it uses a lot of the software, a lot of the vision and a lot of the smarts that we have in our SymBot.

We now have a mini bot that does the same thing, actually does -- and it does some things in a miniature version that even better than the SymBot in terms of healing small packages.

So we think that's a big market, but we haven't been -- I don't think a lot of people know about what this capability is yet, but they'll find out very soon.

Mike Latimore – North Capital Markets; Analyst

Got it. And then on the -- just the ability to do more system starts here, does that require kind of continued, let's say, blocking and tackling or refinement of outsourcing? Or are there others -- will there be some other kind of step function requirements in terms of outsourcing efficiency?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

No. Our ability to start new systems is not dependent on outsourcing. We focused on outsourcing to scale, and we believe we've achieved that. So, we are outsourced and have the capability to continue to expand.

I'd say the slowing that we saw for this quarter on new starts, that's going to change in the back half of this year, and you'll see that number continue to grow.

Just reflective of the \$23 billion backlog we have. And when you look at the timing of when we plan on deploying that, the system starts will start to pick up.

Operator

And the next question will be coming from Robert Mason of Baird. Your line is open.

Robert Mason – Baird; Analyst

Just a question around GreenBox. How do you think about their ability to quickly ramp up just given the current schedule of current customers you have, just trying to think about how -- if they were to add, whether it be C&S or if they add other customers, just how quickly you think that they could layer incremental starts on top of the existing schedule?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

So as we talk about GreenBox and our first deployment next quarter, so we are identifying the management team.

So, we're picking the leaders to put in place. GreenBox will then go ahead and begin ramping up with the additional resources. And so, they're in the process of growing that team. And we believe our ability to ramp GreenBox will be over the course of the next several quarters, you'll continue to see new additions to our GreenBox deployments.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*

And just to clarify, when we've talked about first revenue from this first GreenBox order, we're talking about revenue in the June quarter.



Robert Mason – Baird; Analyst

Okay. Okay. Very good. And just maybe a clarification question around BreakPack. It sounds like that you can market that system to customers who do not or would not necessarily be required to already own or have one of your current case handling systems. Am I understanding that correctly?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

So they would have a very -- they would have most of the people that are doing BreakPack still have to store boxes. And at some point, you take the box, you cut it open, and you dispense the items in the box.

So, they don't necessarily need a BreakPack. They don't necessarily need a storage solution as large as some of the ones that we deployed, but they still have to store boxes. They'll still need the regular SymBot's, and they'll still need something to probably palletize the totes when they come out.

So, it could be a smaller system, but they'll still be part of our basic system the make it work.

Operator

Our next question is coming from Joe Giordano of TD Cowen.

Joseph Giordano – TD Cowen; Analyst

I guess, I'll start, Rick, on the SymBot and some of the innovations you put in there now that you're standardized on it. Just curious, of the 18 sites that you're running, I assume that there's bots that have been deployed that are not like the most vision-enabled using the current technology. Like what's your response -- what's your obligation to go back and kind of backward integrate like the newest and greatest into existing facilities?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So Joe, we were very disciplined long time ago about what we sold, and there was a period before this big growth spurt where we knew we were going to change the bot.

So basically, all of -- there are about four warehouses that have pre- SymBot's and part of the restructuring charge is cleaning up everything else.

But all of our -- so one of the reasons we're going to go faster is everything is standardized now. There is no -- there are no legacy bots.

There is -- there are four early sites. One of it is the C&S side, there's a couple of other sites that are early bots. But going forward, we made the decision, we took the charge. This is the way we want to run the business. And so, we don't want to have to always be dealing with all these different versions of bot.

So all of the Walmart systems, for instance, have the same bot. And everybody going forward for the last two years now has the same bot. So, we made that decision. We've taken the charge. We're very standardized now.

Joseph Giordano – TD Cowen; Analyst

Perfect. And then on GreenBox with the C&S side, is this essentially like an outsourced single-tenant site that you're -- like where C&S is going to run the -- utilize the entire capacity.



I'm just curious like how you see the balance of GreenBox, like on leveraging existing large customers for that sort of purpose versus multi-tenant sites? And like so those multi-tenant sites, do you feel like there's still like software engineering capabilities that need to be developed to really handle like the onboarding, offboarding smoothly?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So, this is primarily going to be a C&S-only site but not necessarily in the future. We have extra capacity, we'll bring other customers, GreenBox will bring other customers into the site.

One of the things that makes Symbotic so special in this space is, we have perfect inventory management. And by perfect when we ship 1 million boxes in a week, we might have one mistake and we can't figure out how, but it's six or seven Sigma accuracy.

And so, there'll be some onboarding of additional customers, but we have that pretty well figured out.

And so, this first site will -- could be 100% C&S or it could be 80% C&S and other customers if we have room. And so the model would be for by customers could look at C&S and say, "Oh, now I understand GreenBox."

If I want to take a building and I could be an anchor tenant and say, "I'll take 50% of the building in GreenBox, you'll go sell the rest of the building. That's exactly what we want out in the marketplace.

So, it could be an anchor customer or in some places, it could be 100 customers and no customer is bigger than 10% of the capacity.

So that's what we're going to begin selling out there now.

Joseph Giordano – TD Cowen; Analyst

The technology as it currently exists can support like -- in a theoretical facility that lots of different customers with no anchor and they're all really small.

I would imagine that that population changes fairly often. The businesses are moving and expanding or going away, the capability exists to bring on and bring off customers into a site like that that already exists?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So, we would have to build a management team to handle the customer relations. But in our structure, you could have 100 boxes in a row, and we would have perfect traceability. It could be 100 different customers with owning 100 boxes in an aisle. We have perfect traceability. So that part of it, the technology is already there. We have to build out the customer management piece.

Operator

And our next question is coming from Derek Soderberg of Cantor Fitzgerald.

Derek Soderberg – Cantor Fitzgerald; Analyst

Just piggybacking off of one of the last questions with the new hardware and software innovations, will all of those be pushed out to systems currently in operation and any new systems? Or is it more of an optional add-on for customers. And then I'm wondering whether or



not the -- any of the new hardware or software innovations turn into either cash payments or upside to existing contract terms or anything like that? And then I've got a follow-up.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

So I'll start, and then Rick can add at the end.

So, it depends. And the innovations that we have in flow, we typically focus on several things.

We're innovating for looking at R&D and additional enhancements to our systems. And so, we do view those as potential opportunities in the future for additional revenue and additional sales.

We also continue to innovate and look at R&D for how we're going to make the systems more efficient from an operational perspective and focus on reliability.

So, some of those enhancements are being rolled out to the systems we have in flow today and will be part of what's in our contracted backlog.

And then the third, which we've talked quite a bit about is, we're focused on innovations that will drive cost out of either system deployment or system operations. And so, there's a mix in there. And so some of the innovation that we're working on absolutely is driven to our current customer set, but others would be growth going forward.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. The other thing is that we've always contemplated that if we can make the bots go twice as fast and you need half as many bots, who gets that income. And so, either we charge for reduced maintenance or if we take -- and we have the same number of bots that go twice as fast and the palletizing cells can do twice as much work, we would be entitled to a recurring income stream for the additional work that we're doing.

So that's always been contemplated, but we're not there yet.

Derek Soderberg – Cantor Fitzgerald; Analyst

Got it. And then as my follow-up, just to clarify some of your commentary, Carol, I think you said there are some lower-margin projects out there.

Can you talk a bit about what's changing on the project front that would characterize a project as low margin at this point? And what kind of step-up in gross margins might we see after, I guess, some of these low-margin projects or work through this year? I'm just looking for you to kind of clarify some of that.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

Yes. So, we've got projects in flow that were our earlier innovation projects, some of them fairly early systems, proof of concepts are included in there. And as they burn off, you'll start to see our gross margin step up.

I'm not going to tie a specific timeline to those because the schedules vary. But you should expect into next year gross margin to start stepping up.



Operator

And this does conclude the Q&A session for today.

I would now like to turn the call back over to Jeff for closing remarks. Please go ahead.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*

Thank you, Lisa. And thank you, everyone, for joining our call today.

We appreciate your interest in Symbotic, and we look forward to seeing you online for our Investor Day. Goodbye.

Operator

This does conclude today's conference call. Thank you for joining. You may all disconnect.

ABOUT SYMBOTIC

Symbotic is an automation technology leader reimagining the supply chain with its end-to-end, A.I.-powered robotic and software platform. Symbotic reinvents the warehouse as a strategic asset for the world's largest retail, wholesale, and food & beverage companies. Applying next-generation technology, high-density storage and machine learning to solve today's complex distribution challenges, Symbotic enables companies to move goods with unmatched speed, agility, accuracy and efficiency. As the backbone of commerce Symbotic transforms the flow of goods and the economics of the supply chain for its customers. For more information, visit www.symbotic.com.

